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## ANALYSIS OF MECHANISM OF BUDGET FINANCING OF ENVIRONMENTAL PROTECTION

One of the main prerequisites for solving major environmental problems in Ukraine is adequate financing. Traditionally, the most significant sources of financial support for environmental protection are the funds of the state and local budgets, while the funds received from other sources are only additional financial resources. Therefore, budget financing is the main form of financing environmental protection.

According to the definition given in the economic encyclopedia, budget financing is an irrevocable cash security, allocation of funds from the state (local) budget for costs and expenditures connected with the performance of government orders, government programs and maintenance of government organizations.

Financing is an important instrument for implementation of environmental functions of the state. Article 41 of the Law of Ukraine "On Environmental Protection" refers to determination of the source of funding of environmental protection as economic instruments [3]. Experience in applying the Law of Ukraine "On Environmental Protection" indicates that this approach is insufficient. Ecological function of the state is the means of exercising its duty, established in the Constitution of Ukraine (Article 16), to the civil society. Therefore, the state must provide funding for environmental expenditures from the budget.

Article 42 of the Law of Ukraine "On Environmental Protection" states that environmental protection in Ukraine is financed from the State Budget of Ukraine, the republican budget of the Autonomous Republic of Crimea and local budgets, by funds from enterprises, institutions and organizations, environmental protection funds, voluntary contributions and other funds [3]. Under current law, the financing of environmental protection measures is envisaged by the State Budget of Ukraine and local budgets [1].

The aim of this research is to analyze the mechanism of budget financing of environmental protection and to determine the features of the financial and economic system in the field of environmental protection.

The basics of financing environmental protection activities were laid down in the period of operation of the Soviet planned economy. The main sources of funds for environmental protection were the state and local budgets as well as the budgets of ministries.

In the course of transition to a free market economy and in the process of reforming the financing system, expenditures in the state and local budgets for environmental protection were significantly cut down.

In 90s the most important sources of financing environmental protection activities were budget and off-budget funds for environmental protection which emerged in countries with transitional economy, where the state no longer provided funding for environmental protection, and private capital couldn't be raised for such purposes and

the emergence of these funds was caused by chronic and very large annual budget deficit. Only the existence of environmental funds at state, regional and local level made it possible to accumulate adequate funds for the implementation of environmental protection programs and projects.

The main objective of the creation of environmental funds was to form autonomous, independent of the state budget, centralized financing of environmental protection activities. It was expected that the off-budget funds of ecofunds would supplement the budget and the funds allocated for this purpose by natural resources companies, rather than substitute them.

There were a number of environmental non-budget funds: local off-budget funds for environmental protection established by councils of basic and regional level, the Autonomous Republic of Crimea; republican off-budget fund for environmental protection in Ukraine; nationwide state and public charity Dnepr Fund; sectorial special-purpose environmental funds.

Later, off-budget funds were liquidated, and a separate section 20 – “Environmental Protection and Nuclear Safety” was introduced into the state budget, in addition to the special fund which finances environmental protection measures. This section includes the expenditures for protection and rational use of water, mineral, and land resources, plantation of forests, field-protective forest belts, preservation of nature reserves, and maintenance of local environmental and nuclear safety. Fees charged for the use of said natural resources of state importance are designated as the main sources of covering respective expenditures.

Since 2006, there has been a dramatic increase in the amount of state budget expenditures from the special fund for respective purposes. Thus, if in 2004 this amount constituted in fact 16,7%, in 2006 – 42,5%. In general, it is regarded as a positive trend. However, 2007 showed inconstancy of that trend.

Incomings to the environmental protection funds during 2008–2012 went up. But the correlation of funds from the State environmental protection fund and local funds also changed and the portion of funding from local funds increased.

In 2012, the development of securing the financing of environmental protection industry at statutory level was primarily carried out by changing environmental tax rates based on consumer price indices, as stipulated by the Final provisions of the Tax Code of Ukraine [4].

In particular, under the Law of Ukraine “On Amendments to the Tax Code of Ukraine regarding revision of certain rates of taxes and duties” of 22 December 2011 № 4235-VI effective environmental tax rates have been increased by an average of 8,9% [2].

Under the Law of Ukraine “On Amendments to the Tax Code of Ukraine regarding revision of certain rates of taxes and duties” of 20 November 2012 № 5503-VI, commencing from 01.01.2013 environmental tax rates have been increased by an average of 7,9%. In addition, the following rates have been increased:

- fees for use of subsoil for mining;
- fees for subsoil use for purposes other than mining;
- tax on land plots normative monetary value of which has not been assessed;

- duty for special use of water;
- duty for special use of forest resources etc.

In 2013 the funds of the special fund of the state budget were increased due to the fact that the «Final and transitional provisions» of the Budget Code of Ukraine established that the environmental tax in 2013 must be directed in the following proportions:

- to the special fund of the state budget – 53% (in 2012 – 30%), of which 33% must be directed to finance 46 projects aimed at ecological modernization of enterprises in the amount of environmental tax paid by these enterprises in the order established by the Cabinet of Ministers of Ukraine;

- to the special fund of local budgets – 47% (in 2012 – 70%), including: to rural, village and city budgets – 33,5%, to regional budgets and budget of AR Crimea – 13,5%, to the budgets of Kyiv and Sevastopol – 47% [1].

These changes show negative trends of pulling environmental protection funds from the local level, where it is necessary to solve the most urgent environmental problems to central level. In such circumstances, dependence of local councils and communities from the will and interests of senior management of the Ministry of Ecology and Natural Resources of Ukraine is increasing.

Comparison of amounts of financing budget programs in 2008–2011 indicates a positive trend. But the decision of the authorities in 2011 to reduce the number of state special purpose programs that are financed from the state budget, has led to a reduction in the total amount of funds directed to protection and restoration of environment, rational use of resources, prevention of pollution.

In 2012, the principles of distribution of funds between the enterprises that implement investment projects, the mechanism of transfer of funds from the special fund of the state budget to specific enterprises, including private sector, and the mechanism of controlling effective use of funds still were not established [4].

The development and adoption of “Order of using funds envisaged in the State budget for financing projects aimed at ecological modernization of enterprises” and “Order of selecting projects aimed at ecological modernization of enterprises” started only in 2013.

This casts doubt on the efficiency of using in 2013 revenues from environmental taxes and providing state incentives for investment programs of modernization of industrial objects of strategic economic sectors.

The principle of allocation of budget funds that focuses on performance of specific measures was introduced in the development and management of state programs. Since then, integrated assessment and approval procedure, including reporting on progress using a number of qualitative and quantitative indices, have been used in the course of development, execution and preparation of reports.

Despite the existence of such procedure, the programs are not financed in full, since limited funds are distributed among a number of expenditures. The lack of a thorough and objective assessment of their effectiveness and efficiency leads to all current programs being funded, which in turn leads to the dissipation of funds and the underfunding of priority or cost-effective programs. Therefore, a lot of programs are not implemented in full, which makes it rather difficult to improve the environmental situation in Ukraine.

Ukraine has a cumbersome and opaque system of environmental protection funds. This system makes it difficult to use the funds effectively and to control incomings and their use for designated purposes. Reporting system is extremely complex, some of its elements are not regulated at statutory level. Therefore, some part of environmental funds is used for purposes distant from the purpose of implementation of effective ecological policies. Moreover, the structure of expenditures under the State budget of Ukraine, which is approved each year by the law of Ukraine, is changed almost every year. Environmental protection funds are scattered among different ministries and agencies [4].

Despite efforts to reform the system of environmental protection in Ukraine, this system remains inefficient. And the fact that environmental funds are scattered among various ministries and agencies makes it difficult for the Ministry of Ecology and Natural Resources of Ukraine to ensure proper use of this funds for designated purposes.

In general, the features or, rather, the drawbacks of the domestic financial and economic system in the field of environmental protection are as follows:

- declarative character of many rules governing application of economic and environmental regulations and their integration into commercial practice;
- low rates of penalties for pollution and a lack of sufficient financing for environmental protection activities. Systematic failure to reach planned financing indices;
- declining trend in the portion of environmental protection expenditures in the revenues of the state and local budgets;
- narrow base of pollution duty payers;
- vagueness of mechanisms of accumulating and directing funds from duties (payments) on special use of natural resources for designated purposes;
- failure to include section «Protection of environment» in most local budgets.

The system of financing environmental protection activities in Ukraine is still in the process of formation, and in some segments it remains undeveloped. In our opinion, environmental tax base needs expanding, and financial resources for environmental protection activities are insufficient.

The implementation of strategy of the national environmental policy must be based on a systematic expansion of the financial framework of environmental protection and balanced with GDP and state budget revenues.

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#### **Summary**

**Komisaruk N. O. Analysis of mechanism of budget financing of environmental protection.** – Article.

This article analyses the mechanism of budget financing of environmental protection and determines the features of the financial and economic system in the field of environmental protection.

*Key words:* budget financing, environmental protection fund, mechanism of budget financing, financial and economic system in the field of environmental protection, environmental tax.